

CHARITON MUNICIPAL WATERWORKS  
INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENT  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS

June 30, 2015

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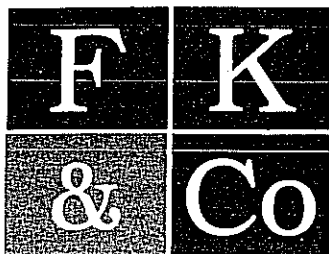
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# CHARITON MUNICIPAL WATERWORKS

## OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2015)</b>		
Roger Bingham	Chairman	December 31, 2017
Shelly Lenzine	Vice-Chairman	December 31, 2019
Evelyn Hull	Secretary	December 31, 2016
Bob Stump	Trustee	December 31, 2014
Jim Burbridge	Trustee	December 31, 2015
Duane Covington	Superintendent	Indefinite
Ruth A. Ryun	Treasurer	Indefinite
<b>(Effective January 2015)</b>		
Roger Bingham	Chairman	December 31, 2017
Shelly Lenzine	Vice-Chairman	December 31, 2019
Evelyn Hull	Secretary	December 31, 2016
Bob Stump	Trustee	December 31, 2020
Jim Burbridge	Trustee	December 31, 2015
Duane Covington	Superintendent	Indefinite
Ruth A. Ryun	Treasurer	Indefinite

## Chariton Municipal Waterworks



**FALLER, KINCHELOE & Co, PLC**

**Certified Public Accountants**

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the  
Chariton Municipal Waterworks:

Report on the Financial Statement

We have audited the accompanying financial statement of the Chariton Municipal Waterworks, Chariton, Iowa, (Waterworks) as of and for the year ended June 30, 2015, and the related Notes to Financial Statement, which collectively comprise the Waterworks financial statement listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on this financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Waterworks preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Waterworks internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of the Waterworks as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### Emphasis of a Matter

As disclosed in Note 4 to the financial statements, the Waterworks adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinion is not modified with respect to this matter.

### Other Matters

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the Waterworks financial statement. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statement.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statement taken as a whole.

The other information, the Waterworks' Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the Waterworks' Proportionate Share of the Net Pension Liability and the Schedule of Waterworks Contributions on pages 7 through 9 and 21 through 25 has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 10, 2015, on our consideration of Waterworks internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Waterworks internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC  
Certified Public Accountants

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Chariton Municipal Waterworks (Waterworks) provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the Waterworks financial statement, which follows.

### 2015 FINANCIAL HIGHLIGHTS

Receipts of the Waterworks increased 53.4%, or approximately \$1,124,000, from fiscal year 2014 to fiscal year 2015.

Disbursements increased 7.2%, or approximately \$170,000, from fiscal year 2014 to fiscal year 2015.

The Waterworks total cash basis fund balances increased 75.4%, or approximately \$678,000, from June 30, 2014 to June 30, 2015.

The increase in receipts is due primarily to \$1,103,000 monies received from revenue bond proceeds in fiscal year 2015.

### USING THIS ANNUAL REPORT

The Waterworks has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as timing for recognizing revenues, expenses and the related assets and liabilities. Under the Waterworks' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Waterworks' cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Waterworks' financial statement. The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statement and provides an analytical overview of the Waterworks' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balance presents information on the Waterworks' receipts and disbursements and whether the Waterworks' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

Other Information further explains and supports the financial statement with a comparison of the Waterworks' budget for the year and the Waterworks' proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the individual Enterprise Accounts. In addition, the Schedule of Indebtedness provides details of the Waterworks' debt at June 30, 2015.

## FINANCIAL ANALYSIS OF THE WATERWORKS

### *Statement of Cash Receipts, Disbursements and Changes in Cash Balance*

The purpose of the statement is to present the receipts received by the Waterworks and the disbursements paid by the Waterworks, both operating and non-operating. The statement also presents a fiscal snapshot of the Waterworks' cash balances at year end. Over time, readers of the financial statement are able to determine the Waterworks' financial position by analyzing the increase and decrease in cash balance.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower, meter fees, revenue bond proceeds, taps and miscellaneous fees. The City of Chariton pays the Waterworks contract fees to include sewer charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer rates, data entry of meter reads, sales tax return preparation and payment. A summary of cash receipts, disbursements and changes in cash balances for the years ended June 30, 2015 and June 30, 2014 are presented below:

Changes in Cash Balances		
	Year ended June 30,	
	2015	2014
<b>Receipts:</b>		
Use of money and property	\$ 14,085	13,020
Charges for service	1,219,012	1,185,026
Miscellaneous	42,507	49,945
Revenue bond proceeds	1,103,100	-
Sewer rental and storm water fees collected for City	849,735	856,172
Total receipts	3,228,439	2,104,163
<b>Disbursements</b>		
Plant operation and maintenance	384,433	404,658
Distribution expenses	228,226	358,862
Accounting and collection	179,435	176,935
Administration and other expenses	199,925	174,623
Capital improvements	68,590	47,261
Sewer rental and storm water fees remitted to City	849,735	856,172
Debt service:		
Principal paid	149,000	148,000
Interest and service fees paid	31,045	34,561
Capital outlay	99,654	178,729
Payments to refund revenue bonds	360,000	-
Total disbursements	2,550,043	2,379,801
Net change in cash balance	678,396	(275,638)
Cash balance beginning of year	900,164	1,175,802
Cash balance end of year	\$ 1,578,560	900,164
<b>Cash Basis Fund Balance</b>		
Restricted for:		
Customer water deposits	\$ 109,654	100,795
Bond principal and interest payments	15,266	14,983
Bond reserve	-	108,500
Unspent bond proceeds	806,396	-
Total restricted cash basis fund balance	931,316	224,278
Unrestricted	647,244	675,886
Total cash basis fund balance	\$ 1,578,560	900,164



The Waterworks' unrestricted cash balance is available for use in routine operations of the plant, distribution and administrative areas of the Waterworks and for capital improvements to the plant and distribution areas. State and federal laws and regulations require the Waterworks to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution. The Waterworks' restricted cash balances are for the repayment the revenue bonds, a required bond reserve, unspent bond proceeds and customer water deposits.

## **BUDGETARY HIGHLIGHTS**

The Waterworks prepares a budget on the cash basis of accounting and submits it to the City of Chariton. During the fiscal year, the Waterworks did not amend its budget. The Waterworks' charges for service receipts were \$284,053 less than budgeted, and the Waterworks' disbursements were \$185,317 less than budgeted for the fiscal year.

## **DEBT ADMINISTRATION**

At June 30, 2015, the Waterworks had \$1,572,100 in revenue bonds outstanding, compared to \$978,000 last year. The increase in debt is the result of the issuance of \$1,103,100 in new debt in fiscal year 2015.

## **ECONOMIC FACTORS**

The Waterworks' appointed officials considered many factors when setting the fiscal year 2016 budget, including water main replacements, upkeep of current mains, plant and distribution improvements, and fees that will be charged. Current economic conditions beyond the Waterworks' Trustees control play a significant role in the daily operations of the water plant and distribution services. These conditions include, but are not limited to:

- The need to constantly maintain facilities, lakes, vehicles and machinery.
- The need to comply with federal and state regulations for the production of water and lake protection requirements.
- The need to maintain up-to-date technology at a reasonable cost.
- The fluctuation of the cost of the chemicals and energy used to produce quality water.

The current drought conditions present a challenge for the Waterworks, both in terms of the adequacy of, and the quality of the water supply.

## **CONTACTING THE WATERWORKS FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Waterworks finances and to show the Waterworks accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Waterworks Superintendent, 101 Albia Road, Box 866, Chariton, IA 50049.

## Financial Statement

CHARITON MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES  
IN CASH BALANCE

As of and for the year ended June 30, 2015

	Enterprise Fund Water
Operating receipts:	
Charges for service	\$ 1,219,012
Miscellaneous	42,507
Total operating receipts	<u>1,261,519</u>
Operating disbursements:	
Business type activities	<u>1,060,609</u>
Total operating disbursements	<u>1,060,609</u>
Excess of operating receipts over operating disbursements	<u>200,910</u>
Non-operating receipts (disbursements):	
Interest on investments	2,805
Rental income	11,280
Sewer rental and storm sewer fees collected for City	849,735
Sewer rental and storm sewer fees remitted to City	(849,735)
Revenue bond proceeds	1,103,100
Debt service	(180,045)
Capital outlay	(99,654)
Payments to refund revenue bonds	<u>(360,000)</u>
Net non-operating receipts (disbursements)	<u>477,486</u>
Change in cash balance	678,396
Cash balance beginning of year	<u>900,164</u>
Cash balance end of year	<u><u>\$ 1,578,560</u></u>
<b>Cash Basis Fund Balance</b>	
Restricted for:	
Customer water deposits	\$ 109,654
Bond principal and interest payments	15,266
Unspent bond proceeds	<u>806,396</u>
Total restricted cash basis fund balance	<u>931,316</u>
Unrestricted	<u>647,244</u>
Total cash basis fund balance	<u><u>\$ 1,578,560</u></u>

See notes to financial statement.

# CHARITON MUNICIPAL WATERWORKS

## NOTES TO FINANCIAL STATEMENT

June 30, 2015

### Note 1. Summary of Significant Accounting Policies

#### A. Reporting Entity

The Chariton Municipal Waterworks (Waterworks) is a component unit of the City of Chariton, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a five-member board of trustees appointed by the Mayor, subject to the approval of the City Council, which exercises oversight responsibility under this criteria.

#### B. Basis of Presentation

The accounts of the Waterworks are organized as an Enterprise Fund. Enterprise funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

#### C. Basis of Accounting

The Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

#### D. Fund Balance

Funds set aside for customer water deposits, bond principal and interest payments, and unspent bond proceeds are classified as restricted.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

### Note 2. Cash and Pooled Investments

The Waterworks' deposits at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Water Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Note 3. Water Revenue Bonds Payable

Annual debt service requirements to maturity for the water revenue bonds payable are as follows:

Year Ending June 30,	Water Revenue Bonds		Water Revenue Improvement and Refunding Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 40,000	14,070	88,000	41,118	128,000	55,188
2017	40,000	12,870	99,300	31,976	139,300	44,846
2018	41,000	11,670	102,400	28,848	143,400	40,518
2019	41,000	10,440	105,700	25,622	146,700	36,062
2020	42,000	9,210	109,000	22,293	151,000	31,503
2021	43,000	7,950	112,400	18,859	155,400	26,809
2022	43,000	6,660	116,000	15,318	159,000	21,978
2023	44,000	5,370	119,600	11,664	163,600	17,034
2024	45,000	4,050	123,400	7,897	168,400	11,947
2025	45,000	2,700	127,300	4,010	172,300	6,710
2026	45,000	1,350	-	-	45,000	1,350
	<u>\$ 469,000</u>	<u>86,340</u>	<u>1,103,100</u>	<u>207,605</u>	<u>1,572,100</u>	<u>293,945</u>

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$800,000 in water revenue bonds issued in 2006, and \$1,103,100 in water revenue improvement and refunding bonds issued in 2015. Proceeds from the bonds provided financing for the construction of water main replacements, and to refund an older debt issue. The bonds are payable solely from water customer net receipts and are payable through 2026. Annual principal and interest payments on the bonds are expected to require less than 89 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,866,045. For the current year, principal and interest paid and total customer net receipts were \$178,525 and \$200,910, respectively.

Water Revenue Bonds

On August 7, 2006, the Waterworks entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$800,000 of water revenue bonds with interest at 3.00% per annum. The agreement also requires the Waterworks to annually pay .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal waterworks system. The funds were drawn down by the Waterworks from the Trustee upon request to reimburse the Waterworks for costs as they were incurred. An initiation fee of 1% of the authorized borrowing for the water revenue bonds was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld in fiscal year 2007 by the bank from the first proceeds of the water revenue bonds drawn by the Waterworks.

The resolutions providing for the issuance of the water revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a water revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.

Note 3. Water Revenue Bonds Payable (continued)

- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

Water Revenue Improvement and Refunding Bonds

The resolutions providing for the issuance of the water revenue improvement and refunding bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a water revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

Note 4. Pension Plan

Plan Description - IPERS membership is mandatory for employees of the Waterworks, except for those covered by another retirement system. Employees of the Waterworks are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Note 4. Pension Plan (continued)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Waterworks contributed 8.93 percent for a total rate of 14.88 percent.

The Waterworks' contributions to IPERS for the year ended June 30, 2015 were \$30,337.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the Waterworks' liability for its proportionate share of the collective net pension liability totaled \$241,533. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The Waterworks' proportion of the collective net pension liability was based on the Waterworks' share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Waterworks' proportion was 0.005968 percent, which was an increase of 0.000826 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the Waterworks collective pension expense, collective deferred outflows and collective deferred inflows totaled \$18,078, \$13,284 and \$92,114 respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation.

Note 4. Pension Plan (continued)

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23 %	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100 %</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Waterworks will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the Waterworks' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Waterworks' proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Waterworks' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Waterworks' proportionate share of the net pension liability	\$ 456,370	\$ 241,533	\$ 60,188

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).



Note 5. Other Postemployment Benefits

Plan Description – The City of Chariton operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. The Waterworks' employees are part of the City of Chariton's insurance policy. The City bills the Waterworks for its share of the health benefit plan costs. There are 7 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Waterworks. The Waterworks currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Waterworks and plan members are \$547.30 for single coverage, \$1,149.33 for employee/spouse coverage, and \$1,039.87 for employee/children coverage. For the year ended June 30, 2015, the Waterworks contributed \$57,231 and plan members eligible for benefits contributed \$5,830 to the plan.

Note 6. Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation and compensatory leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation and compensatory leave termination payments payable to employees at June 30, 2015 is \$24,243. The liability has been computed based on rates of pay in effect at June 30, 2015.

The Waterworks policy allows employees who retire at age 55 or older to receive pay for unused sick leave, up to a maximum of 960 hours. The hourly rate of pay used for the payment of unused sick leave would be the hourly pay in effect at the date of retirement. Currently, only two Waterworks employees are age 55 or older. However, all employees are eligible for this benefit if they retire from the Waterworks at age 55 or older, and have unused sick leave hours on the date of retirement. Based on rates of pay in effect at June 30, 2015, the unused sick leave maximum liability to the Waterworks is \$88,936 at June 30, 2015.

Note 7. Intrafund Transfers

The detail of intrafund transfers for the year ended June 30, 2015 is as follows:

Transfer to	Transfer from	Amount
Enterprise:	Enterprise:	
Debt service	General	\$ 100,029
	Improvement	100,546
Total		<u>\$ 200,575</u>

Transfers generally move resources from the account required to collect the resources to the account statutorily required to disburse the resources.

Note 8. Lease Agreements

The City is leasing antenna space on the water tower to USCOC of Iowa RSA #1, Inc. (tenant) for \$1,120 per month. The Waterworks and the City have signed an additional agreement which provides that the City and Waterworks will each receive one-half of the lease payments in relation to this lease. The tenant pays the City the entire lease payment, and then the City reimburses the Waterworks for one-half of this amount. The initial term of the lease began in April, 2009. The Waterworks received \$6,720 from the City in relation to this lease in fiscal year 2015, and is scheduled to receive \$560 per month from the City in relation to this lease until April, 2019, with four additional five year renewal options. As long as this lease is in effect, after every five years, the base rent for this lease will be increased by 12% over the previous year's base rent. Unless the tenant decides to terminate the lease, the City has to continue to lease the antenna space to the tenant until fiscal year 2039.

The Waterworks is leasing antenna space on the water tower to Skybeam (tenant). The initial term of the lease began in March, 2005. The Waterworks received \$4,560 from this lease in fiscal year 2015, and is scheduled to receive \$360 per month from this lease until December, 2015, with an additional five year renewal option. At the next renewal option, the Waterworks is scheduled to receive \$432 per month from this lease. Unless the tenant decides to terminate the lease, the City has to continue to lease the antenna space to the tenant until December, 2020.

Note 9. Related Party Transactions

The Waterworks had business transactions between the Waterworks and Waterworks officials totaling \$16,221 during the year ended June 30, 2015.

Note 10. Risk Management

The Waterworks is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Waterworks assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 11. Contingencies

The Waterworks is currently using a computer operating system that is no longer supported by the manufacturer. The manufacturer is no longer providing security updates for the computer operating system used by the Waterworks. As a result, there is an increased risk that the Waterworks data on the computer system will be compromised, either through theft of the data by an outside party or by data corruption. The potential liability to the Waterworks as a result of the use of a computer operating system no longer supported by the manufacturer is unknown.

The State of Iowa, Department of Natural Resources has threatened to commence an administrative action against the Waterworks for alleged violations of regulatory provisions applicable to the Waterworks operations. The Waterworks has vigorously denied the allegations. The potential outcome of this administrative action is unknown, and the probability of loss, if any, is undeterminable.

Note 12. Subsequent Events

The Waterworks has evaluated subsequent events through December 10, 2015, which is the date that the financial statement was available to be issued.

## Other Information

CHARITON MUNICIPAL WATERWORKS

BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE -  
BUDGET AND ACTUAL (CASH BASIS)

OTHER INFORMATION

Year ended June 30, 2015

	Actual	Budgeted Amounts Final	Final to Actual Variance
Receipts:			
Use of money and property	\$ 14,085	11,060	3,025
Charges for service	2,068,747	2,352,800	(284,053)
Miscellaneous	42,507	11,500	31,007
Total receipts	2,125,339	2,375,360	(250,021)
Disbursements:			
Business type activities	2,190,043	2,375,360	185,317
Excess (deficiency) of receipts over (under) disbursements	(64,704)	-	(64,704)
Other financing sources (uses)	743,100	-	743,100
Excess of receipts and other financing sources over disbursements and other financing uses	678,396	\$ -	678,396
Cash balance beginning of year	900,164		
Cash balance end of year	\$ 1,578,560		

See accompanying independent auditor's report.

## CHARITON MUNICIPAL WATERWORKS

### NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2015

The Chariton Municipal Waterworks (Waterworks) prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year the Waterworks did not amend its budget.

During the year ended June 30, 2015, disbursements did not exceed the amounts budgeted.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF THE WATERWORK'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST FISCAL YEAR\*  
(IN THOUSANDS)

OTHER INFORMATION

	<u>2015</u>
Waterworks' proportion of the net pension liability	0.005968%
Waterworks' proportionate share of the net pension liability	\$ 242
Waterworks' covered employee payroll	\$ 400
Waterworks' proportionate share of the net pension liability as a percentage of its covered-employee payroll	60.50%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

\* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Waterworks will present information for those years for which information is available.

CHARITON MUNICIPAL WATERWORKS  
SCHEDULE OF WATERWORKS CONTRIBUTIONS  
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS  
(IN THOUSANDS)  
OTHER INFORMATION

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 30	36	26	28	22	21	21	16	15	14
Contributions in relation to the statutorily required contribution	(30)	(36)	(26)	(28)	(22)	(21)	(21)	(16)	(15)	(14)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
Waterworks' covered-employee payroll	\$ 336	400	300	347	317	316	331	264	261	243
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

See accompanying independent auditor's report.



## CHARITON MUNICIPAL WATERWORKS

### NOTES TO OTHER INFORMATION – PENSION LIABILITY

Year ended June 30, 2015

#### Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

#### Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

## Supplementary Information

CHARITON MUNICIPAL WATERWORKS

Schedule 1

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2015

	General	Customer Deposit	Debt Service	Improve- ment	Total
Operating receipts:					
Charge for service:					
Sale of water to meter customers	\$1,165,750	-	-	-	1,165,750
Sales of water - tank service	7,639	-	-	-	7,639
Meter fee	24,020	-	-	-	24,020
Collection fee from City	12,000	-	-	-	12,000
Sale of supplies and materials	9,603	-	-	-	9,603
	1,219,012	-	-	-	1,219,012
Miscellaneous:					
Refunds and reimbursements	16,888	-	-	-	16,888
Customer deposits	-	19,325	-	-	19,325
Miscellaneous	6,294	-	-	-	6,294
	23,182	19,325	-	-	42,507
Total operating receipts	1,242,194	19,325	-	-	1,261,519
Operating disbursements:					
Business type activities:					
Plant operation and maintenance:					
Salaries	146,338	-	-	-	146,338
Power and propane	52,887	-	-	-	52,887
Chemicals	133,494	-	-	-	133,494
Supplies	19,266	-	-	-	19,266
Telephone	1,986	-	-	-	1,986
Security cameras	1,010	-	-	-	1,010
Miscellaneous and safety	3,360	-	-	-	3,360
Maintenance material	15,636	-	-	-	15,636
Maintenance labor	5,684	-	-	-	5,684
Sludge removal	4,772	-	-	-	4,772
	384,433	-	-	-	384,433
Distribution expenses:					
Salaries	102,771	-	-	-	102,771
Vehicle expense	17,269	-	-	-	17,269
Insurance	51,998	-	-	-	51,998
Supplies	1,978	-	-	-	1,978
Utilities	12,807	-	-	-	12,807
Telephone	2,666	-	-	-	2,666
Miscellaneous and safety	3,325	-	-	-	3,325
Maintenance material	30,107	-	-	-	30,107
Maintenance labor	5,305	-	-	-	5,305
	228,226	-	-	-	228,226

CHARITON MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2015

	General	Customer Deposit	Debt Service	Improve- ment	Total
Operating disbursements (continued):					
Business type activities (continued):					
Accounting and collection:					
Salaries	91,620	-	-	-	91,620
Meter reading	5,646	-	-	-	5,646
Office supplies	3,987	-	-	-	3,987
Sales tax	52,522	-	-	-	52,522
Postage	13,066	-	-	-	13,066
Telephone	2,915	-	-	-	2,915
Utilities	3,791	-	-	-	3,791
Miscellaneous and safety	5,888	-	-	-	5,888
	179,435	-	-	-	179,435
Administration and other expenses:					
Engineering and legal	44,043	-	-	-	44,043
Employee benefits	119,961	-	-	-	119,961
Audit and filing fee	4,975	-	-	-	4,975
Miscellaneous and safety	16,255	-	-	15	16,270
Building expense	4,207	-	-	-	4,207
Customer deposits	-	10,469	-	-	10,469
	189,441	10,469	-	15	199,925
Capital improvements:					
Meters	68,590	-	-	-	68,590
	68,590	-	-	-	68,590
Total operating disbursements	1,050,125	10,469	-	15	1,060,609
Excess (deficiency) of operating receipts over (under) operating disbursements	192,069	8,856	-	(15)	200,910

CHARITON MUNICIPAL WATERWORKS

Schedule I (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2015

	General	Customer Deposit	Debt Service	Improve - ment	Total
Non-operating receipts (disbursements):					
Interest on investments	256	3	-	2,546	2,805
Rental income	11,280	-	-	-	11,280
Sewer rental and storm sewer fees collected for City	849,735	-	-	-	849,735
Sewer rental and storm sewer fees remitted to City	(849,735)	-	-	-	(849,735)
Revenue bond proceeds	-	-	-	1,103,100	1,103,100
Debt service:					
Principal redemption	-	-	(149,000)	-	(149,000)
Interest paid	-	-	(29,525)	-	(29,525)
Service fees	-	-	(1,520)	-	(1,520)
Capital outlay	(99,654)	-	-	-	(99,654)
Payments to refund revenue bonds	-	-	-	(360,000)	(360,000)
Total non-operating receipts (disbursements)	(88,118)	3	(180,045)	745,646	477,486
Excess (deficiency) of receipts over (under) disbursements	103,951	8,859	(180,045)	745,631	678,396
Transfers in (out)	(100,029)	-	200,575	(100,546)	-
Change in cash balances	3,922	8,859	20,530	645,085	678,396
Cash balances beginning of year	209,303	100,795	123,483	466,583	900,164
Cash balances end of year	\$ 213,225	109,654	144,013	1,111,668	1,578,560

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

Schedule 2

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2015

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Water Revenue Bonds	08-07-06	3.00%	\$ 800,000
Water Revenue Improvement and Refunding Bonds	10-29-09	1.30%-3.40%	1,085,000
Water Revenue Improvement and Refunding Bonds	03-25-15	3.15%	1,103,100

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
08-07-06	\$ 508,000	-	39,000	469,000	15,240	-
10-29-09	470,000	-	470,000	-	14,285	-
03-25-15	-	1,103,100	-	1,103,100	-	-
Total	\$ 978,000	1,103,100	509,000	1,572,100	29,525	-

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

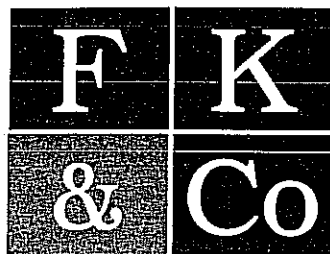
Schedule 3

BOND MATURITIES

June 30, 2015

Year Ending June 30,	Water Revenue Bonds		Water Revenue Improvement and Refunding Bonds		
	Issued August 7, 2006		Issued March 25, 2015		
	Interest Rates	Amount	Interest Rates	Amount	Total
2016	3.00%	\$ 40,000	3.15%	\$ 88,000	128,000
2017	3.00%	40,000	3.15%	99,300	139,300
2018	3.00%	41,000	3.15%	102,400	143,400
2019	3.00%	41,000	3.15%	105,700	146,700
2020	3.00%	42,000	3.15%	109,000	151,000
2021	3.00%	43,000	3.15%	112,400	155,400
2022	3.00%	43,000	3.15%	116,000	159,000
2023	3.00%	44,000	3.15%	119,600	163,600
2024	3.00%	45,000	3.15%	123,400	168,400
2025	3.00%	45,000	3.15%	127,300	172,300
2026	3.00%	45,000	-	-	45,000
		<u>\$ 469,000</u>		<u>\$ 1,103,100</u>	<u>1,572,100</u>

See accompanying independent auditor's report.



**FALLER, KINCHELOE & Co, PLC**

**Certified Public Accountants**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the  
Chariton Municipal Waterworks:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of the Chariton Municipal Waterworks, Chariton, Iowa (Waterworks), as of and for the year ended June 30, 2015, and the related Notes to Financial Statement, which collectively comprise the Waterworks financial statement, and have issued our report thereon dated December 10, 2015. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Waterworks' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Waterworks' internal control. Accordingly, we do not express our opinion on the effectiveness of the Waterworks' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B) and (C) to be material weaknesses.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Waterworks' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

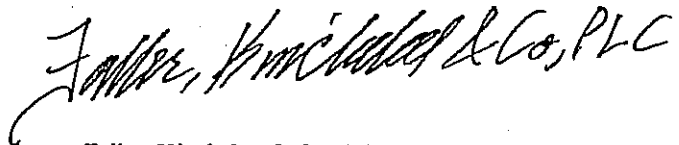
## Waterworks Responses to the Findings

The Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Waterworks' responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Waterworks' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co., PLC  
Certified Public Accountants

Des Moines, Iowa  
December 10, 2015

# CHARITON MUNICIPAL WATERWORKS

## SCHEDULE OF FINDINGS

Year ended June 30, 2015

### Findings Related to the Financial Statement:

#### INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person. Also, some bank accounts are not reconciled by an individual who does not sign checks, handle or record cash. Mail is opened by accounting personnel with access to the accounting records. In addition, the duties for maintaining accounts receivable are not separate from those of processing collections and deposits.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Chariton Municipal Waterworks (Waterworks) should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including appointed officials. The Waterworks could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response – We will consider this.

Conclusion – Response acknowledged.

- (B) Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for the Board of Trustee members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response – The management officials will attempt to read relevant accounting literature and attend professional education courses to improve in the ability to apply accounting principles.

Conclusion – Response acknowledged.

- (C) Computer Operating System – The Waterworks is currently using a computer operating system that is no longer supported by the manufacturer. As a result, there is an increased risk that the Waterworks data could be compromised, either through theft or through corruption.

Recommendation – The Waterworks should update its computer operating system to ensure the operating system used is supported by the manufacturer.

Response – We will upgrade our computer operating system.

Conclusion – Response acknowledged.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2015

**INSTANCES OF NONCOMPLIANCE:**

No matters were reported.

# CHARITON MUNICIPAL WATERWORKS

## SCHEDULE OF FINDINGS

Year ended June 30, 2015

### Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - The budget certified by the City of Chariton includes amounts budgeted for the Chariton Municipal Waterworks (Waterworks). Disbursements during the year ended June 30, 2015, did not exceed the amounts budgeted.
- (2) Questionable Disbursements - Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Hy-Vee	Gift cards for employees	\$ 350

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

In addition, according to IRS Publication 15-B and Publication 535, the gift cards given to some Waterworks employees would be considered a taxable event, subject to income and employment taxes. However, the Waterworks did not include the value of gift cards as income to the employee or withhold taxes, as required.

Recommendation – The Waterworks should determine and document the public purpose served by these disbursements before authorizing any further payments. If these disbursements are continued, the Waterworks should establish written policies and procedures, including the requirement for proper documentation. In addition, in the future, all employee taxable compensation, including the value of gift cards given to employees, should be included in the employees' income and be subject to applicable payroll taxes.

Response – We will review this issue.

Conclusion – Response acknowledged.

- (3) Travel Expense - No disbursements of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.
- (4) Business Transactions - Business transactions between the Waterworks and Waterworks' officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Mark Savage, Employee, Son Owns Savage Dirt Works	Construction services	\$ 5,729
Mark Savage, Employee Brother Owns ARS Construction	Construction services	10,492

In accordance with Chapter 362.5 of the Code of Iowa, these transactions may represent a conflict of interest since total transactions were more than \$1,500 during the fiscal year and some services were not competitively bid.

# CHARITON MUNICIPAL WATERWORKS

## SCHEDULE OF FINDINGS

Year ended June 30, 2015

Recommendation – The Waterworks should consult legal counsel to determine the disposition of this matter.

Response – We will consult with our Attorney.

Conclusion – Response acknowledged.

- (5) Bond Coverage - Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (6) Board of Trustee Minutes – No transactions were found that we believe should have been approved in the trustee minutes but were not.

It does not appear the Waterworks published its board minutes and related claims timely, as required. Chapter 388.4 of the Code of Iowa states that “Immediately following a regular or special meeting of a utility board, the secretary shall prepare a condensed statement of the proceedings of the board and cause the statement to be published in a newspaper of general circulation in the city. The statement must include a list of all claims allowed, ...”. In some instances, the board minutes and related claims were not published until approximately 30 days after the board meeting. As a result, it does not appear the Waterworks met the intent of Chapter 388.4 of the Code of Iowa.

Recommendation – The Waterworks should comply with Chapter 388.4 of the Code of Iowa and publish all minutes and related claims timely in the newspaper.

Response – We will implement this recommendation.

Conclusion - Response acknowledged.

- (7) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Waterworks investment policy were noted.
- (8) Revenue Notes and Bonds – No instances of non-compliance with the revenue bond requirements for the year ended June 30, 2015 were noted.
- (9) Delinquent Accounts – The Waterworks has not turned over delinquent accounts to either the collection agency or to the County Treasurer in several years. At June 30, 2015, delinquent Waterworks customer accounts over 90 days old totaled \$121,023.

Recommendation – The Waterworks should consider turning over delinquent accounts to either the collection agency or to the County Treasurer for collection. In addition, the Waterworks should implement procedures to more aggressively collect delinquent amounts due to the Waterworks.

Response – We will look into this in the future.

Conclusion – Response acknowledged.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2015

- (10) Utility Rates - Chapter 384.84 of the Code of Iowa requires that water rates be established by resolution of the trustees, published in the same manner as an ordinance. However, the customer deposit amount and some of the miscellaneous water fees charged by the Waterworks were established by a motion of the trustees and not by resolution, even though it appears a resolution is required.

Recommendation – The Waterworks should establish all water rates by resolution, and publish them in the same manner as an ordinance, as required by the Code of Iowa.

Response – We will establish all of the water utility rates by resolution of the trustees, and publish them accordingly.

Conclusion – Response acknowledged.

- (11) Computer System – The Waterworks does not have a written disaster recovery plan in case of computer failure or destruction.

Recommendation – The Waterworks should develop written policies in relation to a computer system disaster recovery plan.

Response – We will review this and take action as necessary.

Conclusion – Response acknowledged.